

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 1097

E.O. 11652: GDS
TAGS: EGEN, PINR, CSCE, NATO, XH
SUBJECT: ECONADS: FEB. 24-25 MEETING WITH HEADS OF ECONOMIC
INTELLIGENCE

REF: (A) USNATO 917, (B) STATE 35673, (C) STATE 38675,
(D) ED/EC/77/10 (REVISED)

SUMMARY: ECONADS FEB 24-25 MEETING REINFORCED BY NATIONAL
HEADS OF ECONOMIC INTELLIGENCE EMPHASIZED NATO CONCERN
WITH STRONG POSSIBILITY SOVIET ECONOMY WILL HAVE INCREAS-
ING DIFFICULTIES IN MEETING AT THE SAME TIME ITS CON-
CURRENT OBJECTIVES OF BUILDING DEFENSE, RAISING
CONSUMPTION, AND PROVIDING FOR ECONOMIC GROWTH. PARTICI-
PANTS SUPPORTED NORWEGIAN CALL FOR COOPERATION IN
ASSESSING IMPACT OF SOVIET OWNED AND CONTROLLED FIRMS
IN THE WEST. THERE WAS GENERAL AGREEMENT ON NEED TO
IMPROVE ALLIED ATTENTION TO SOVIET/EE DEBT AND CREDIT
SITUATION, ALTHOUGH NO SPECIFIC CHANGES WERE FORESEEN
UNTIL OUTCOME OF OECD INITIATIVES (REF C) BECAME CLEARER.
IN CONCLUSION, BILLY LISTED SEVERAL TOPICS FOR CON-
TINUED ATTENTION, RELATIVE PRIORITY OF WHICH ARE TO
BE CONSIDERED FURTHER. ACTION REQUESTED: RELEASE TO
ECONADS OF APPROPRIATELY SANITIZED PORTIONS OF ANY
STUDIES WASHINGTON MAY HOLD ON THE FOLLOWING TOPICS-
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AEROFLOT STRUCTURE AND OPERATIONS, "GUEST WORKERS"
IN COMECON COUNTRIES, AND, WHEN AVAILABLE, BLOC OWNED/
CONTROLLED FIRMS ABROAD. END SUMMARY.

1. FEB. 24-25 MEETING-IN ADDITION TO THOSE EXPERTS
LISTED REF A-WAS ATTENDED BY J. DEBOER, MOD INTELLI-
GENCE DIVISION, AND WILLEM ELZINGA MFA, NETHERLANDS
AND T. BOGH, DIRECTOR GENERAL FOR ECONOMIC AFFAIRS,
MFA, NORWAY.

2. UNDER AGENDA ITEM I. (II), SPECIAL STUDIES REQUESTED BY THE COUNCIL, CHAIRMAN BILLY POINTED OUT THAT IN ADDITION TO THE SOVIET FISHERIES AND MERCHANT MARINE STUDIES PREVIOUSLY NOTED, PERMREPS IN INFORMAL SESSION HAD ALSO REQUESTED SIMILAR REVIEW OF ROLE OF AEROFLOT. BILLY SAID DIRECTORATE'S STUDY ON SOVIET FISHERIES WAS ABOUT TO BE ISSUED AND URGED PROMPT REVIEW AND APPROVAL BY ECONADS. NORWEGIAN REP SAID GON NATIONAL STUDY WAS NOW IN PREPARATION AND WOULD BE READY IN ABOUT SIX MONTHS-WHICH BILLY NOTED MIGHT FORM BASIS FOR A REINFORCED MEETING ON THE TOPIC NEXT FALL. NORWEGIAN REP EXPRESSED CONCERN WITH AEROFLOT PRICE CUTTING, IMPLICATIONS OF WHICH WERE BEING STUDIED BY SCANDINAVIAN AUTHORITIES, AND URGED EXCHANGE OF INFORMATION ON THIS ASPECT. DANISH REP NOTED AEROFLOT ROLE IN RECENT SOVIET TROOP ROTATION FROM GDR, AND SUGGESTED THE ISSUE SHOULD BE LOOKED AT BROADLY.

3. NORWEGIAN-WHO WAS ABLE TO REMAIN ONLY FIRST DAY-LED OFF DISCUSSION OF SOVIET-CONTROLLED FIRMS IN WEST, SKETCHING ATTEMPTED EXPANSION OF SIZE AND ACTIVITIES OF THE TWO MAJOR SOVIET OWNED FIRMS IN NORWAY, THE GON ABILITY TO CONTROL THEM TO A CERTAIN EXTENT THOUGH REGULATIONS GOVERNING BUSINESS ORGANIZATION, REAL ESTATE PURCHASE, WORK PERMITS, AND FOREIGN FUNDS TRANSFER, AND THE SOVIET PENCHANT FOR USING CONFIDENTIAL

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RECIPROCAL MINISTERIAL VISITS TO SEEK REVERSAL OF NORWEGIAN STRICTURES--PUTTING THE MATTER ON A PLANE OF "...ARE WE FRIENDS OR AREN'T WE?" BOGH NOTED THAT THE FIRMS' AREA OF OPERATIONS IN BOTH EXPORT AND IMPORTS FACILITATED SOVIET CONTROL OF BOTH ENDS OF GIVEN TRANSACTIONS, AND PERMITTED DE FACTO BARTER TO ECONOMIZE ON CONVERTIBLE CURRENCY. GON HAD RESISTED ATTEMPT OF THE FIRMS TO MOVE INTO THE MARITIME TRANSPORT FIELD, INTER ALIA TO PREVENT SOVIET ACCESS TO NATO WARTIME SHIPPING PLANS AND DATA. THIS WAS ECHOED BY DANISH REP (HOEJ), WHO NOTED THAT DANISH AUTHORITIES HAD PREVENTED THE FORMATION OF A SOVIET-CONTROLLED OIL DISTRIBUTING COMPANY WITH SAME GOAL OF RESTRICTING SOVIET INVOLVEMENT IN DANISH (AND NATO) EMERGENCY ARRANGEMENTS IN THE PETROLEUM FIELD. CANADIAN (BOWEN) SAID HIS AUTHORITIES VIEWED SOVIET EFFORTS TO SET UP FREIGHT FORWARDING AND BONDED WAREHOUSE

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ESTABLISHMENT WITH SOME CONCERN SINCE THESE MIGHT FACILITATE EVASION OF COCOM CONTROLS ON EXPERTS OF STRATEGIC COMMODITIES. BELGIAN ECONAD (DE BROUWERE) NOTED THAT THERE WERE MANY SOVIET-CONTROLLED FIRMS IN BELGIUM, AND THAT LOCAL REGULATIONS SEEMED CONSIDERABLY MORE LIBERAL THAN THOSE OF SOME OTHER ALLIES. RESPONDING TO THE DANISH POINT, HE SAID THAT DURING THE 1973 OIL EMERGENCY SOVNAFT IN ANTWERP HAD COOPERATED FULLY WITH NECESSARY DISTRIBUTION AND CONSERVATION MEASURES. RECALLING THAT THE QUESTION HAD FIRST BEEN RAISED LAST FALL IN THE CSCE CONTEXT, NORWEGIAN SAID GON, AFTER CAREFUL STUDY, HAD NOW CONCLUDED THAT THEIR RESTRICTIONS ON EXPANSION OF ACTIVITIES OF PRESENT SOVIET-CONTROLLED FIRMS, ESTABLISHMENT OF NEW ONES, AND ENTRY OF ADDITIONAL PERSONNEL DO NOT CONFLICT WITH THE FINAL ACT. SESSION RECOGNIZED THE ADVERSE POTENTIAL OF SUCH FIRMS FOR SOVIET/EE INTELLIGENCE ACTIVITIES, BUT FELT THESE ASPECTS SHOULD BE LEFT TO MORE SPECIALIZED BODIES, E.G., NATO SPECIAL COMMITTEE. CANADIAN AND US (ERNST) NOTED THEIR NATIONAL SERVICES WERE PREPARING STUDIES ON BLOC-CONTROLLED FIRMS, WHICH THEY HOPED TO SHARE WITH ECONADS WHEN COMPLETE.

4. ON AGENDA POINT II.(I), FINANCIAL PROBLEMS OF COMECON, REPS AGREED WITH CHAIRMAN BILLY'S STRESS ON CONFIDENTIAL

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IMPORTANCE OF RECEIVING EARLY, COMPREHENSIVE INFORMATION ON SOV/EE BORROWING, THEIR DEBT POSITIONS, AND INTRA-COMECON TRADE AND FINANCIAL BALANCES. US, UK (RUDKIN), AND CANADIANS REPS NOTED POTENTIAL IMPROVEMENT IN OECD COLLECTION OF DATA IN THIS FIELD (REF C) WOULD LARGELY MEET NATO NEEDS, BUT MEMBERS WERE URGED TO PROVIDE DATA IN OECD FORMAT CONCURRENTLY TO NATO ECONOMIC DIRECTORATE TO PERMIT ANALYSIS HERE FROM STANDPOINT OF NATO CONCERNS. US REP CIRCULATED UNCLASSIFIED ESTIMATES OF SOV/EE HARD CURRENCY DEBTS, WHICH PARALLELED THOSE OF UK, FRANCE, AND GERMANY. FURTHER DETAILED DISCUSSION WAS FORESEEN DURING MARCH 22-23 REINFORCED ECONADS MEETING.

5. IN GENERAL DISCUSSION OF ENERGY QUESTIONS, US AND

CANADIAN REPS POINTED OUT INCREASING DIFFICULTY SOVIETS WILL HAVE IN MAINTAINING CURRENT POSITION OF MAJOR PRODUCER AND EXPORTER. CANADIAN-DRAWING ON EXPERIENCES IN NORTHERN PROVINCES-STRESSED THE STAGGERING COSTS AND OPERATIONAL PROBLEMS OF EXTRACTING AND TRANSPORTING OIL AND GAS FROM REMOTE ARCTIC REGIONS.

6. TAKING OFF FROM AGENDA POINT II (VI), ..ECONOMIC BALANCE BETWEEN NATO AND WP COUNTRIES, US REP SKETCHED DEMOGRAPHIC, ORGANIZATIONAL, AND FINANCIAL FACTORS WHICH MAY COMPLICATE SOVIET ABILITY TO MEET PRODUCTION GOALS IN THE CURRENT FIVE YEAR PLAN PERIOD AND BEYOND. SESSION AGREED GREATER ATTENTION SHOULD BE GIVEN TO PRODUCTIVITY OF LABOR AND INVESTMENT IN THIS CONTEXT.

7. SUMMING UP THE TWO DAYS, BILLY CONCLUDED PARTICIPANTS FELT ECONADS-WITH SUPPORT FROM NATIONAL SERVICES-SHOULD PLAN TO DEAL WITH FOLLOWING TOPICS OVER NEXT YEAR: PRODUCTIVITY OF LABOR AND INVESTMENT IN SOV/EE; RAW MATERIAL SUPPLY SITUATION, ESPECIALLY PETROLEUM; DEVELOPMENTS IN DEFENSE EXPENDITURES; EAST-WEST ECONOMIC
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COOPERATION; SITUATION OF THE SOVIET/EE CONSUMER; E-W FINANCIAL ISSUES; AND CSCE BASKET II (INCLUDING, AT DUTCH REQUEST, ASPECTS OF THE ROLE OF "GUEST WORKERS" IN THE WP COUNTRIES). THE RELATIVE PRIORITY TO BE ACCORDED TO THESE ISSUES WAS STILL TO BE ESTABLISHED, AND HE CALLED FOR SUBSEQUENT COMMENTS AT LATER ECONADS MEETING.

8. PARTICIPANTS AGREED TO MEET AGAIN IN ABOUT TWO YEARS.

9. ACTION REQUESTED: AS IN SUMMARY.
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